A National Broadband Plan
Federal Universal Service Reform

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U.S. Cellular

- U.S. Cellular provides Personal Communications Service and Cellular Radiotelephone Service in 44 Metropolitan Statistical Areas , 100 Rural Service Areas, one Major Trading Area, and numerous Basic Trading Areas throughout the Nation.

- U.S. Cellular is an eligible telecommunications carrier ("ETC") in Washington, Iowa, Wisconsin, Kansas, Oregon, Maine, Missouri, Nebraska, Oklahoma, West Virginia, Illinois, New Hampshire, North Carolina, Virginia, Tennessee, and New York.

How Does USF Reform Fit With the National Broadband Plan?

- Reform of current USF contribution and distribution mechanisms can significantly increase funding for broadband.
- Support for voice service must be transitioned over time to broadband.
- Efficiency of current framework: Mechanisms to fund construction and maintenance of broadband networks in high-cost areas can be more easily administered within the current universal service program.
- Ensure that support is sufficient for consumers in rural areas to receive access to high-quality broadband services and prices that are reasonably comparable to that which is available in urban areas. (47 U.S.C. § 254(b)(3)).

Universal Service is Not Viable Without Reform of the Contribution Methodology

- Congress authorized the FCC to adapt universal service mechanisms to ensure that rural Americans have access to new technologies.
- Currently, support is based on interstate revenues for voice and some data services.
- Revenues for voice service on all platforms is declining, and will continue to decline – contributing to a rising contribution factor.
- Revenues for data and broadband access are increasing as consumers shift to IP voice and alternate means of communicating.
- Contribution mechanisms must shift with this evolution.

Transferring Support to Explicit Fund Has Resulted in Extraordinary Benefits to Consumers

- Current Fund Size – Over $4 Billion. Growth due primarily to:
  - FCC transfer of support from implicit rates to explicit fund.
  - FCC decision to not make support fully portable when wireline carriers lose access lines.
- Explicit support to competitors such as U.S. Cellular has driven significant new infrastructure investments in rural America.
- Moving support from implicit rate structures to explicit USF program has helped to dramatically reduce prices for wireless and long-distance services:

Per-Minute Cost of Wireless Service
(Including USF Contributions)

(1995-2007)

Sources: FCC, *Trends in Telephone Service*, Table 19.17 (Feb. 2007); *Implementation of Section 6002(b) of the Omnibus Budget Reconciliation Act of 1993 – Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services*, WT Docket No. 06-17, *Twelfth Report*, FCC 08-28 (rel. Feb. 4, 2008), at para. 201 (Table 14)

YEAR	(A) AVERAGE REVENUE PER VOICE MINUTE ($) 1/	(B) CONTRIBUTION FACTOR (%) 2/	(C) PER MINUTE COST OF CONTRIBUTION FACTOR ($) 3/	TOTAL COST PER MINUTE ($) (A) + (C)
1995	0.4300			
1996	0.3800			
1997	0.3700			
1998	0.2900	3.1625	0.0092	0.2992
1999	0.2200	3.0143	0.0066	0.2266
2000	0.1800	5.6980	0.0103	0.1903
2001	0.1200	6.8445	0.0082	0.1282
2002	0.1100	7.1625	0.0079	0.1179
2003	0.1000	8.7701	0.0088	0.1088
2004	0.0800	8.8000	0.0079	0.0879
2005	0.0600	10.5500	0.0074	0.0674
2006	0.0600	10.1750	0.0071	0.0671
2007	NA	10.9250		

1/ Data covers the last six months of each year.

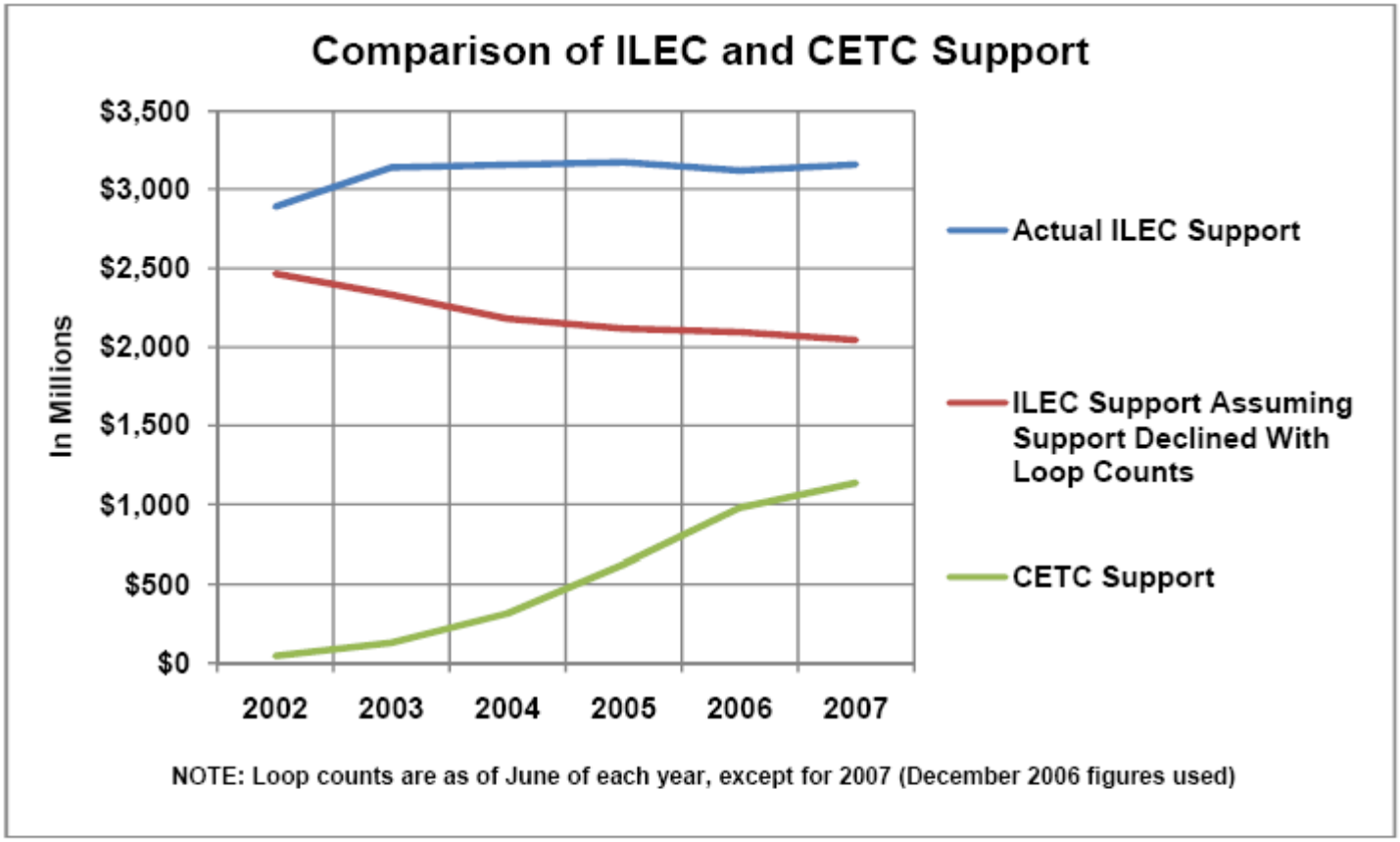
2/ The listed number for years 1998-2007 is an average of the four quarterly contribution factors.

3/ Calculated by multiplying the average revenue per minute (A) by the contribution factor (B)

Support Must be Sufficient to Fulfill Congressional Goals

- Statute requires that support must be sufficient ***for rural citizens to receive access to reasonably comparable services at reasonably comparable prices***.
- Fund is properly sized by providing support at an efficient level, and only supporting carriers that get customers.
- Periodic updates of a model or other support methodology needed to ensure appropriate support levels. Existing non-rural model is out of date.
- Support must be portable. Portability promotes consumer choice and new technologies.

Failure to Implement Portability Will Constrain Investment in New Technologies



Broadband Support Mechanisms Must Be Competitively Neutral

- New 4G mobile wireless platforms such as LTE, Wi-Max can provide rural consumers with reliable and substitutable broadband services.
- Consumers overwhelmingly desire access to mobile wireless services that provide critical health and safety applications unavailable through fixed platforms.
- Setting aside broadband support for any class of carrier would lock out more efficient technologies of today and the future.
- Grant programs can build facilities for access, but universal service mechanisms must go farther – to promote reasonably comparable services.

Support Must Be Efficient and Targeted to Areas that Need Investment

- Support is for high-cost areas, not necessarily high-cost carriers.
- Target support to the wire center level. See, e.g., 47 C.F.R. § 54.315.
- Use ARRA broadband mapping project to identify high-cost areas.
- Provide an efficient level of support to the identified high-cost areas so that areas that support robust competition on their own do not receive subsidies.
- Transition away from embedded costs. Consider providing support using models.

Consideration of a Model to Determine Efficient Costs and Appropriate Support Levels

- Significantly increased computing power and mapping software have improved the capability of models to accurately predict costs and determine efficient support levels.

- Courts have upheld the use of forward-looking cost methodologies: See e.g., Verizon Communications Inc. v. FCC, 535 U.S. 467 (2002).

- Consider providing support based on a common unit of service measurement, such as minutes of use, or Megabits of throughput delivered to consumers, rather than lines in service.

Reverse Auction Challenges

- Limiting entry distorts the marketplace by erecting a barrier to entry. Recreates problem 1996 Act solved.
- Competition occurs only once every ten years (at the auction), rather than every day in the marketplace.
- Will require creation of “251-type” obligations for dominant carriers to open networks and limit anti-competitive conduct.
- Largest carriers have an incentive to bid near-zero to drive out competitors and reduce large carrier contributions.
- Newcomers must be able to access support mechanisms on a level playing field with other market participants.

Reverse Auction Challenges (cont'd)

- Auction winner, having bid for the lowest level of support and operating with limited competition, has no incentive to deliver high-quality service.

- Patently unfair to limit auctions to wireless:
  - Wireless consumers contribute the biggest share of USF.
  - Consumers want high-quality wireless platforms.
  - Auctions for wireless limit choice, and growth.
  - Declining technologies remain on embedded costs – "the more you spend, the more you get."

- Auction "term" will exacerbate stranded facilities problem, i.e., plant may not be depreciated.

Avoid Unnecessary Litigation Delays by Seeking Legislation

- Section 254 contemplates universal service mechanisms being used to support broadband.
- Therefore, the Commission should proceed with transition of universal service mechanism to broadband.
- Some comments indicate risk of litigation delay, potentially delaying broadband deployment in rural areas.
- Broadband plan should recommend technical adjustments to Section 254 to eliminate the possibility of litigation delay.